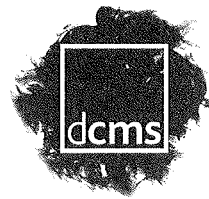


CMS 156943/DC

Dame Liz Forgan
Chair
Arts Council England
14 Great Peter Street
LONDON
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department for
culture, media
and sport



*host government
department*

20 October 2010

Dear Liz

2010 SPENDING REVIEW

I am writing to inform you about the outcome of the 2010 Spending Review for my Department. DCMS' overall budget will reduce by 25% by 2014-15, which comprises a 24% reduction to the resource budget and a 32% reduction to the capital budget.

This letter sets out the funding settlement for Arts Council England covering the financial years 2011-12 to 2014-15. I am setting out these high level budget allocations now to give you the best opportunity to plan for what will be a very challenging four year period. This letter will be followed by a more detailed funding agreement that will include full details of the settlement over four years, and the Government's requirements to support the transparency agenda.

My overall approach to the Spending Review has been to tackle the challenge in a strategic way, based on four principles:

- cutting waste and inefficiency, stopping lower priority projects and rethinking the role of the state in the sectors in which we operate;
- protecting for the long term our unique cultural, heritage and sporting assets;

- delivering a safe and successful Olympics in 2012; and
- contributing to the Government's growth agenda by supporting growth in our sectors and in the wider economy.

The resource grant in aid budget for your organisation will be cut by 29.6% in real terms by 2014-15. The new grant in aid budget for your organisation will be £1448m over four years. Within this settlement –

- I would ask that the Arts Council tries to ensure that the budget for the regular funding of arts organisations is not cut by more than 15% in real terms over the next four years. There will of course be variances to individual RFOs and I recognise this may mean total withdrawal of funding in some cases.

I understand you will soon be going through a process to decide levels of regular funding for the next four years. I would expect all organisations in receipt of regular funding to receive information about indicative levels of funding for the Spending Review period by the end of March 2011.

- I expect spending on administration to be cut by 50% in real terms. We expect that bodies will meet the costs of restructuring. Where there are genuine difficulties, you should contact DCMS to explore options that might be available.
- I expect the continuation of the joint research and survey programme (CASE and Taking Part) via a top-slice of £225k per annum (total £900k) to support a wider range of evidence in engagement in the arts (e.g. volunteering) and longitudinal measurement to provide missing evidence on benefits of engagement in the arts.

It will be important to strengthen the financial resilience of the sector over this period by building the fundraising capacity of the organisations you support. I expect the Arts Council to work closely with Government, the cultural community and the wider charitable sector to strengthen donor cultivation and boost private sector investment in our cultural infrastructure. This may be particularly challenging outside London, but it is in everyone's interest that we encourage and share best practice in fundraising and long-term relationship management with private sector supporters. By doing so we can realise the benefits of the Big Society for communities across England. I would hope any proposals you have around match-funding programmes would boost private sector support and investment in culture.

You have indicated that you intend to reform the way that regular funding is delivered to arts organisations and this is something we support. A move to partnership organisations with an explicit responsibility for the sector more broadly is a positive one, as is being more explicit about the outcomes you are seeking from the specific programme funding. You have said that this new model for regular funding will be launched on 1 April 2012.

The Foreign Secretary and I are keen to ensure that the UK reinforces its international reputation for artistic excellence, and hope the Arts Council will support international cultural exchange through its funded organisations and other activities. The Government's priorities will be the emerging powers of China, India, Brazil, the Gulf States, Russia and Japan, and we would particularly welcome your support for artistic engagement in those countries, working in partnership with Government, the British Council and UKTI. We hope there will be opportunities to unlock additional funding from the private sector to support those activities.

I will also be looking to the Arts Council to provide support in three other areas across the Spending Review period.

The first is in developing the Cultural Leadership Programme into a broader organisational development resource for culture and the creative industries, ensuring that the resources you and others are able to devote to it deliver better value for money and have more impact in the sectors. I would expect the Arts Council to ensure, as long as partner contributions are made, that this resource delivers outcomes for areas beyond the arts, while being better able to realise efficiencies by being plugged more effectively into the Arts Council itself. In particular I would like to see a specific focus on developing fundraising capacity for cultural organisations.

The second is around supporting the implementation of the outcomes of the review of music and cultural education being undertaken by Darren Henley. When the recommendations are known I would expect the Arts Council to play a leading role, as appropriate, in implementing them.

The third is support for the Cultural Olympiad where Arts Council engagement is critical.

We have discussed how the Arts Council will convey its funding decisions to its organisations and I expect you to be able to inform organisations of their individual 2011/12 budget and the overall budget for direct funding of arts organisations for 2012/13, 2013/14 and 2014/15 on the 26th October.

Budgetary control totals

The control totals against which the Arts Council's net expenditure will be monitored and the grant in aid that DCMS will pay in each year are set out in the table below. The key controls are the first two elements of the resource budget – the near-cash spending on programmes and on administration, and the overall capital budget.

£m	Resource Budget			Total Resource (DEL) Budget	Capital Budget			Total Capital (DEL) Budget	Grant in Aid
	Programme (near-cash)	Administration (near-cash)	Ring fenced depreciation		Core capital	Grants	Projects		
2011-12	352.113	22.632	1.770	376.516	1.236	11.747	N/A	12.983	387.729
2012-13	324.827	21.581	1.893	348.301	1.236	11.535	N/A	12.771	359.179
2013-14	323.518	15.500	2.016	341.034	1.236	11.366	N/A	12.602	351.620
2014-15	324.763	12.191	2.070	339.024	1.236	11.203	N/A	12.439	349.393

The approach that I have taken in setting these allocations is to commit most of the Department's resources to the bodies that we fund, and to keep only very limited funds back at the centre. This necessarily means that I am left with very little flexibility to deal with risk, for example to meet unforeseeable changes in circumstances and priorities that will arise, particularly in the latter years of the Spending Review period. So, while these allocations set out my firm plans for the next four years, they cannot be immutable, particularly for the third and fourth years. I must ask you to build into your own plans some flexibility in the later years. My intention would of course to minimize any changes to budgets, and to keep them below 5 per cent of your overall allocation in any case.

The Resource DEL Budget is split into three sub-totals. The **Administration** budget is the amount available for net expenditure on administration and management of your organisation. The reducing budget over the period reflects the priority I place on ensuring that funds are used for front-line delivery. Further information about the nature of these control totals and the flexibility between budgets can be found in **Annex A**.

Capital

DCMS's capital budget reduction is 32%. Capital budgets are tighter than for resource spending, making decisions here more difficult. We have therefore focussed our spending on completing those major projects that are already underway and maintaining capital spending on maintenance of core cultural and sporting assets. We have also been able to provide funding for the roll out of the Coalition's commitment to high speed broadband.

Your core capital budget is £4.944m over the financial years 2011-12 to 2014-15.

Your capital grant budget for the same period will be £45.851m.

Transparency

To replace the performance frameworks that you may have been used to in the past, Arts Council England will instead be expected to make information available to the public on a range of subjects. This will involve the formulation of an information strategy setting out what will be published and when. Further guidance about what must be included will be given in the funding agreement (which will be issued shortly) but it will incorporate a range of inputs and impact indicators.

Despite the difficult circumstances, this represents a fair settlement with safeguards to protect the cultural cores. My Ministerial Team and I look forward to working with you over the next four years.

Thank you for your help in such difficult circumstances -

Yours

Jeremy

JEREMY HUNT

Secretary of State for Culture, Olympics, Media and Sport

Annex A

Resource DEL budget

The Resource DEL Budget is split into three sub-totals. The **Administration** budget is the amount available for net expenditure on administration and management of your organisation. The reducing budget over the period reflects the priority I place on ensuring that funds are used for front-line delivery. Should you wish to go further in reducing administration costs to enable a larger portion of the funds provided to be used at the front-line, you will not be penalised and you have the authority to use any under spend on the administration budget in either the programme or depreciation budgets instead.

In contrast, the **Depreciation** budget is operated as a one-way ring fence. This means that, after your net depreciation¹ and impairment charges have been set against it, any overspend must be covered by a reduction in expenditure on either the Programme or Administration budgets. Should there be an underspend against the depreciation budget however, no additional expenditure is permitted in other areas.

The **Programme** budget is simply all other resource expenditure not already captured in the Depreciation and Administration budgets.

Capital DEL budget

The Capital DEL budgets are also separated into three distinct control totals.

There are not currently any **major capital projects** being undertaken by Arts Council England which are funded directly from the Department. Should this change in the future it should be noted that it is not permissible to switch funding from that project to other areas of capital expenditure without the permission of the Department. You would be expected to control expenditure on the project and plan to ensure that the project conforms to the budgetary limits shown. I wish to be quite clear that any slippage in the project that requires the deferral of expenditure to a later year will only be approved if the Department's overall budget has sufficient headroom to accommodate it. If it does not, you will be expected to defer expenditure and re-phase the project to conform to the profile shown. I would encourage you to ensure that any contracts you sign or agreements that you enter into are flexible enough to accommodate this.

Capital grants are also given a separate heading within the Capital DEL budget. This is only for grants given to third parties and may not be used on any capital projects or schemes by Arts Council England itself.

¹ The depreciation charged against the DEL budget excludes depreciation on assets funded by lottery grants or donations.

The last category is **core capital**. This captures all other capital expenditure and might include smaller capital projects, maintenance and replacement work. The Department will look kindly upon proposals to use the budget allocated for core capital expenditure on either increasing the value of capital grants distributed or on assisting with the re-profiling of major projects; however, you still require Departmental approval to change the nature of the expenditure.

For museums and galleries that have reserves, separate arrangements will be put in place to manage the drawdown of accumulated reserves and to handle their future buildup (eg from new donations). I will write separately to the bodies affected.

Please remember that any project that costs (over its lifetime and including all funding streams) more than your delegated capital limit must be approved by the Investment Committee at DCMS using the approved process.